

CITY OF PRAIRIE CITY

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020**

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City of Prairie City

City of Prairie City
Officials
(Before January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Chad Alleger	Mayor	Jan 2020
John Lee	Council Member	Jan 2022
Christy Lindsay	Council Member	Jan 2022
Diane Taylor	Council Member	Jan 2022
Troy Kuecker	Council Member	Jan 2020
Ann McDonald	Council Member	Jan 2020
Cindy Kane	City Clerk	Indefinite
Joe Bartello	City Administrator	Indefinite
Stuyvesant, Benton & Judisch	City Attorney	Indefinite

(After January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Chad Alleger	Mayor	Jan 2022
Christy Lindsay	Council Member	Jan 2022
Diane Taylor	Council Member	Jan 2022
Brent Berger	Council Member	Jan 2024
Ann McDonald	Council Member	Jan 2024
Deb Townsend	Council Member	Jan 2024
Cindy Kane	City Clerk	Indefinite
John Lloyd	City Administrator	Indefinite
Stuyvesant, Benton & Judisch	City Attorney	Indefinite

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Prairie City for the period July 1, 2019 through June 30, 2020, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Prairie City's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.

5. We scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2020 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We observed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We traced selected receipts to accurate accounting and consistency with the recommended COA.
13. The City had no voter approved levies.
14. We traced selected disbursements to proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Prairie City during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Faller, Kincheloe & Co, PLC

October 28, 2020

Detailed Findings and Recommendations

CITY OF PRAIRIE CITY
DETAILED RECOMMENDATIONS
For the period July 1, 2019 through June 30, 2020

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one or two individuals have control over each of the following areas for the City of Prairie City (City):

1. Cash – handling, reconciling and recording.
2. Investing – recordkeeping, investing, custody of investments and reconciling earnings.
3. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
4. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
5. Payroll – recordkeeping, preparation and distribution.
6. Debt – recordkeeping, compliance and debt payment processing.
7. Utilities – billing, collecting, depositing and posting.
8. Financial reporting – preparing and reconciling.
9. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – The cash and investment balances in the City's general ledger were not accurately reconciled to bank and investment account balances throughout the year. For two months reviewed, bank and book balances did not properly reconcile.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (C) Receipt Misclassifications – Our review noted several receipts misclassified on the accounting system. For example, some local option sales tax receipts were coded as road use tax receipts, some road use tax receipts were coded as local option sales tax receipts.

Recommendation – The City should implement procedures to ensure all receipts are coded to the proper receipt classification.

- (D) Reconciliation of Ambulance Billings, Collections and Delinquent Accounts – Ambulance billings, collections and delinquent accounts were not reconciled throughout the year.

CITY OF PRAIRIE CITY
DETAILED RECOMMENDATIONS
For the period July 1, 2019 through June 30, 2020

Recommendation – Procedures should be established to reconcile ambulance billings, collections and delinquent accounts on a monthly basis. The City Council or other independent person designated by the City Council should review the reconciliations, document their review and monitor delinquent accounts.

- (E) Financial Condition – At June 30, 2020, the City had a deficit balance of \$1,845 in the General Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial condition.

- (F) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 50% for property tax relief and 50% for community betterment and/or any lawful purpose. All of the local option sales tax receipts are recorded in a Special Revenue Fund and 100% is transferred to the General Fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the referendum.

- (G) City Council Minutes – The following were identified:

- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund and a summary of all receipts. Furthermore, this documentation is required to be published in a newspaper of general circulation of the City. We noted that these requirements were not consistently met by the City for four of the four meetings tested.
- Chapter 372.13(6) of the Code of Iowa requires the minutes include all the claims allowed, and the minutes and claims be published in a newspaper of general circulation in the City. We noted that the February 2020 claims and the December 2019 City Council minutes were not published in the newspaper.
- The Council went into closed session various times during the fiscal year. The Council minutes did not document the vote of each member to go into closed session, as required by Chapter 21.5(2) of the Code of Iowa.

CITY OF PRAIRIE CITY
 DETAILED RECOMMENDATIONS
 For the period July 1, 2019 through June 30, 2020

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa in relation to the City Council minutes, proceedings, publications and approval of claims. The City should also comply with Chapter 21 of the Code of Iowa in relation to closed sessions.

- (H) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

- (I) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction/ Description</u>	<u>Amount</u>
Ryan Van Der Kamp, Volunteer Fire Chief, Owner of Kamp Electric, LLC	Repair Work	\$638

In accordance with Chapter 362.5(3)(h) of the Code of Iowa, the transactions with the volunteer fire chief do not appear to represent a conflict of interest.

- (J) Long-Term Debt – Our review of the City’s long-term debt noted a portion of the City’s general obligation debt was paid from the Enterprise, Water Fund and the Enterprise, Sewer Fund. Chapter 384.4 of the Code of Iowa requires that only general obligation debt be paid from the Debt Service Fund.

Recommendation – The City should ensure general obligation debt is paid from the Debt Service Fund, as required by the Code of Iowa.

- (K) Interfund Transfers – After April 17, 2019, interfund transfers were not passed by resolution as required by Iowa Administrative Code Section 545-2.1.

Recommendation – The City should implement procedures to ensure compliance with the State of Iowa requirements in relation to interfund transfers.

- (L) Annual Urban Renewal Report (AURR) – The City’s cash balances, disbursements, and outstanding obligations as reported on the AURR Levy Authority Summary do not agree to the City’s records.

CITY OF PRAIRIE CITY
DETAILED RECOMMENDATIONS
For the period July 1, 2019 through June 30, 2020

Recommendation – The City should ensure the balances reported on the AURR Levy Authority Summary agree with the City’s records.

- (M) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

Based on our review of the TIF certifications to the County Auditor and the County Auditor’s indebtedness increment tax reconciliation form, it appears the City certified approximately \$263,000 in excess obligations.

Recommendation – The City should work with TIF legal counsel to determine the disposition of the City’s TIF certification.

- (N) Low to Moderate Income – The City entered into an urban renewal development agreement for the construction of housing units. In accordance with these agreements and Chapter 403.22 of the Code of Iowa, any project related to housing which receives tax increment financing assistance must also generate funds to be used to provide assistance to housing for low and moderate income (LMI) families. At June 30, 2020, the City has a cash balance of \$179,944 in the Special Revenue, Low to Moderate Income Fund. It does not appear the City has a plan to spend this money on qualified low to moderate income projects.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (O) Excess TIF Cash – At June 30, 2020, the City has a cash balance of \$39,716 in the Special Revenue, Urban Renewal Tax Increment Fund. However, at June 30, 2020, the City has no outstanding TIF obligations. As a result, it appears the City has excess cash in the TIF Fund at June 30, 2020.

Recommendation – The City should consult legal counsel to determine how to handle the excess TIF balance.

CITY OF PRAIRIE CITY
DETAILED RECOMMENDATIONS
For the period July 1, 2019 through June 30, 2020

- (P) Budget Publications - The City's notice of public hearing, published on February 28, indicated that the public hearing on the budget would take place on March 6. However, the actual public hearing took place on March 13. There was no notice of public hearing published in the newspaper for the March 13 date. As a result, since the City's budget publication date as published was inaccurate, it does not appear the City is in compliance with Chapter 384.16 of the Code of Iowa which requires that notice be published in a newspaper having a general circulation in the City.

The beginning budget numbers on budget amendment number 2 did not always agree to the ending budget numbers on budget amendment number 1. The beginning budget numbers on budget amendment number 3 did not always agree to the ending budget numbers on budget amendment number 2.

Recommendation – The City should implement procedures to ensure budget publications are in compliance with Chapter 384.16 of the Code of Iowa. The City should also implement procedures to ensure the beginning budget numbers on the budget amendment agree to the ending budget numbers on the previous budget amendment.

- (Q) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the debt service and the business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.